CARLING O'KEEFE LIMITED

Annual Report 1978

CARLING O'KEEFE LIMITED
ANNUAL REPORT 1978

HIGHLIGHTS OF CONTINUING OPERATIONS

	1978	1977
BEER		(Restated)
Sales barrels	4,391,000	4,441,000
Sales value	$342,445,000	$323,733,000
WINE		
Sales gallons	4,870,000	4,806,000
Sales value	$ 31,904,000	$ 29,323,000
OIL & GAS		
Sales barrels & equivalent	1,114,000	1,211,000
Sales value	$ 6,798,000	$ 6,133,000
CONSOLIDATED		
Sales value	$381,147,000	$359,189,000
Earnings from continuing operations	$ 11,809,000	$ 4,833,000
Earnings from continuing operations per common share	44.6¢	12.5¢

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VERSION FRANÇAISE

Si vous désirez une version française de ce rapport, veuillez en faire la demande par écrit au:

Vice-président juridique et secrétaire
Carling O'Keefe Limitée
79 St. Clair Avenue East, Toronto, Canada M4T 1M6

Report to the Shareholders

1977/78 was an active and important year for Carling O'Keefe Limited. The sale of investments and assets significantly improved both the Company's present financial position and its outlook for future operations. The year's most significant transaction was the sale of the Company's United States subsidiary, Carling National Breweries, Inc., which marked the end of over forty years of direct involvement in the United States brewing industry. The reason for the sale was communicated to Shareholders both in a special letter dated December 16, 1977 and also in the Quarterly Report to Shareholders dated February 14, 1978 and a further review appears later in this Annual Report. It was a most important transaction for your Company as it removed a major drain on the Company's resources.

In order that Shareholders can fully appreciate the financial effect of the sale of the United States subsidiary on the Company's continuing operations, the financial information in this report has been restated to exclude the United States operations from both the current year's amounts and the prior year's comparative figures. The investment in the United States subsidiary and its operating results have been disclosed as separate items in the financial report.

CONSOLIDATED RESULTS

FINANCIAL YEARS ENDED	MARCH 31 1978	MARCH 31 1977
Sales	$381,147,000	$359,189,000
Earnings from continuing operations	$ 11,809,000	$ 4,833,000
Earnings before extraordinary items	$ 1,652,000	$ 4,732,000
Earnings (loss) after extraordinary items	$ (8,559,000)	$ 5,402,000
Earnings (loss) per common share for the year		
From continuing operations	44.6 ¢	12.5¢
Before extraordinary items	(2.1)¢	12.0¢
After extraordinary items	(49.0)¢	15.1¢

This emphasizes our ongoing business which I consider to be the most relevant information for our Shareholders.

Consolidated net earnings from continuing operations for the year ended March 31, 1978 were $11,809,000 or 44.6¢ per common share compared to $4,833,000 or 12.5¢ per common share for the year ended March 31, 1977.

To December 30, 1977 the operating loss from the United States brewing operations was $10,157,000 and the loss on the sale of the United States subsidiary was $12,093,000. Details of this loss are set out in Note 2 to the consolidated financial statements.

The 1978 consolidated net loss after extraordinary items was $8,559,000 or 49.0¢ per common share compared to earnings of $5,402,000 or 15.1¢ per common share in 1977.

Consolidated sales revenue from continuing operations for the year ended March 31, 1978 was $381,147,000 compared to $359,189,000 in 1977, an increase of 6.1%. This increase reflects primarily increases in selling prices in all subsidiaries together with the effect of sales mix and increased sales volume in the Canadian wine and the Irish beer businesses.

The slow rate of growth in the Canadian brewing industry continued in 1977/78 with sales volume increasing only slightly over the previous year. The Company's sales volume declined from the prior year, reflecting the sale of the Doran's brands in June 1977 and a small decline in share of market.

Earnings of the Canadian brewing operations improved over the previous year due to increased selling prices and efficiencies resulting from the sale of excess production capacity during the year. In the latter part of the year two

new brands, Colt 45 and Highlite, were launched in certain major markets in Canada. While it is still too early to know if these brands will be a success, the initial sales exceeded forecast and were quite encouraging. In the coming year, the Company will continue its attempt to regain market share, particularly in Ontario, with innovative marketing and packaging. However, the difficulties in achieving sales growth in an industry which has not enjoyed significant growth for several years and which is dominated by three large companies, should not be underestimated.

Relatively low priced foreign wines continued to gain market share in Canada, particularly in the large and growing table wine segment of the market. Sales of Canadian wines increased in volume as the Canadian wine industry grew, but continued to decline as a share of the total market. Jordan Valley Wines Limited, your Company's subsidiary, is the largest wine company in Canada, with a strong market position in the important Ontario and British Columbia markets. Jordan's earnings increased substantially over the previous year as a result of price increases received; improving sales mix, with a trend to more profitable brands; and a substantial reduction in overheads due to an improved cost control programme. The new winery in Surrey, British Columbia, was completed during the year and was used for the 1977 vintage. When in full production this facility, the most modern winery in Canada, will provide improved production and transportation efficiencies. With appropriate products and a reasonable pricing relationship to foreign wines, Jordan Valley Wines Limited can look forward to a successful future.

During the year Star Oil & Gas Ltd., your Company's oil and gas subsidiary, undertook an active programme of acquisition of prospective oil and gas lands, and exploration for and development of oil and gas reserves. Proven reserves of gas were increased but the current surplus gas supply in Canada made it difficult to market the new gas. To improve earnings until such time as this gas can be sold, greater emphasis will be placed on exploration and development of oil reserves in Canada and oil and gas reserves in the United States, which can be sold more readily. Despite the current surplus gas situation, the long term future of the oil and gas industry in Canada in general and of Star Oil & Gas Ltd. in particular, is considered to be excellent.

Sales volume, sales revenue and earnings of Beamish & Crawford Limited, your Company's Irish beer subsidiary, increased significantly reflecting a larger share of a growing market and improved profit margins as the result of a price increase received during the year. If current sales trends continue and pricing policies are reasonable, the Company will be able to look forward to continued improved earnings in the future.

The sale of the United States subsidiary and the surplus brewing assets in Canada has improved the Company's financial position considerably from one year ago. The disposition of the proceeds from the sale of these assets is set out in the statements of changes in financial position and working capital. At March 31, 1978, cash and short term investments amounted to $16,993,000; working capital was $49,439,000; and the current ratio was 2.1:1, a satisfactory position.

At present Management is reviewing plans for the ongoing operations of the Company and its subsidiaries to determine the future course for the Company. The funds remaining from asset disposals during the year will first be used to meet the requirements of the existing subsidiary companies. For the past few years, capital spending in the operating companies has been held to a minimum, due to the unsatisfactory earnings position of the Company. However, in future, it

is anticipated that a higher level of capital expenditures will be required to replace or renew existing facilities, vital to our long term strength and competitive position, and to expand production capacity in certain markets as sales volumes increase. There have been such rapid increases in costs of construction, production machinery, and equipment in recent years that depreciation on historical costs no longer provides sufficient cash flow to replace or renew capital assets. Therefore, capital expenditures will have to be financed either out of earnings retained in the business or by outside financing.

Although the controls on business in the Anti-Inflation Act were withdrawn commencing April 14, 1978, the Company and its Canadian subsidiaries will be subject to controls until January 1, 1979. The Company's current fiscal year began April 1, 1978 (prior to the withdrawal of controls) and therefore, the Company's selling prices, profits, salaries and wages will be controlled until December 31, 1978. Dividends will be controlled until October 13, 1978.

Board of Directors

Mr. J. P. U. Burr, a Director of Bass Charrington Limited was appointed to the Board of Directors on September 14, 1977 to fill the vacancy created by the retirement of Sir Alan Walker. Your Board was saddened to learn of the death of Sir Alan on January 3, 1978, and wishes to acknowledge his contribution to the Company during the eight years he was a Director.

On May 16, 1978 Mr. Conrad M. Black, Chairman of Sterling Newspapers Ltd., was appointed to the Board to replace Mr. Jerold C. Hoffberger who resigned subsequent to the sale of Carling National Breweries, Inc. The Board wishes to thank Mr. Hoffberger for the service provided to the Company during his period as Director.

Outlook

I believe that the year's activities have improved your Company's outlook considerably; a serious drain on the earnings and resources of the Company has been removed; the utilization of production capacity in the Canadian brewing company is now over 85%; two new brands were launched in major beer markets in Canada with strong marketing support; all subsidiaries are now profitable with a trend towards improved earnings.

This particular time of economic and political uncertainty in Canada, makes it difficult to predict the future accurately even in the short term. We look forward to the future, however, with more confidence than we have in the past.

The Board of Directors is aware that the Common Shareholders have not received a dividend since October 1972 and recognizes the rights of the Shareholders to expect a return on their investment. If current activities are successful, I hope that it will be possible to restore a common dividend.

Appreciation

Without the loyalty and hard work of all of our employees, much of what was accomplished this year would not have been possible. On behalf of the Board of Directors I would like to thank them and also express the gratitude of the Board to our more than 32,200 Shareholders (of whom 27,500 are Canadian) for their continued support.

J. C. Lockwood
Chairman of the Board
and President

May 16, 1978

Review of Operations

Brewing Operations—Canada

Results of the Company's Canadian brewing operations, for the year ended March 31, 1978, showed a marked improvement over those of the previous year.

BREWING OPERATIONS—CANADA			
FINANCIAL YEARS ENDED	MARCH 31 1978	MARCH 31 1977 (Restated)	% INCREASE (DECREASE)
Sales (barrels)	4,174,000	4,259,000	(2.0)
Sales	$317,322,000	$304,797,000	4.1
Earnings before interest and income taxes	$ 12,627,000	$ 6,816,000	85.3
Earnings per barrel	$3.03	$1.60	89.4

Sales volume trends in the Canadian beer industry continued to be of concern with sales for the twelve months ended March 31, 1978, showing only a marginal (1.0%) increase over the same period of 1977. Moreover, industry sales decreases were reported in the Provinces of Quebec, Saskatchewan and Manitoba.

The company's sales volume for the 1977/78 fiscal year declined 2.0% from the previous year due both to the sale during the year of the Doran's operations and to some continued erosion in market share. Market share increases were achieved in British Columbia and Manitoba but Ontario continued to be the major problem market and efforts to improve this position are continuing.

Sales revenues increased 4.1% over the previous year, reflecting increases in beer selling prices obtained within the constraints of the Federal Anti-Inflation Act and as permitted by the various Provincial governmental authorities. The company continued to lose revenue, necessary to cover cost increases, through delays of up to four months in obtaining Provincial approval to price increase submissions.

Raw materials and manufacturing costs increased over the prior year. Increases in labour costs and other manufacturing expenses offset benefits gained from lower malt costs and efficiencies obtained through the sale of the Waterloo brewery and the consolidation of all Ontario production into the modern and efficient plant in Toronto.

Marketing and distribution expenses for the year were approximately the same as the previous year as increases in distribution costs were offset by a reduction in marketing costs. Distribution expense increases resulted from higher costs for wages, fuel and other expenses.

Two new brands were introduced by the company during the year. Colt 45, a regular strength product, was introduced initially in British Columbia and subsequently in Saskatchewan and Ontario. Highlite, a new light beer, was introduced in Ontario, British Columbia, Saskatchewan and Manitoba. Highlite is the only true light beer in Canada containing half the alcohol of regular beers and less than 70 calories per bottle. The Canadian market for light beer is increasing and the company is endeavouring to capture a major share. While the company, as well as its competitors, have products on the market which are slightly less than regular strength, Highlite is the first product with significantly lower alcohol, calories and carbohydrates. Both brands have performed well during the initial introductory period.

In addition to the sale of the company's brewery in Waterloo, as noted above, the company also disposed of its Doran's brewing and soft drink operations in Northern Ontario during the year. The Doran's operations, while generating a

small profit, were incompatible with the long range plans of the company, and when a satisfactory offer was received from a group of Doran's employees, it was accepted.

The encouraging earnings improvement achieved in the 1977/78 fiscal year was due in large measure to both concentrated and innovative efforts in the market place and also continued emphasis on cost control in all areas of the company's business. These measures will be maintained and will become of increasing importance in an industry which over the short term shows only marginal growth prospects.

Wine Operations

The combined domestic and imported wine industry in Canada continued to be buoyant during the past fiscal year with an increase in sales volume of 9%. This was in keeping with the sales trend of the past two years.

The growth in wine sales has been characterized by two very distinctive trends: first, a pronounced decline in the sale of wines containing more than 14% alcohol by volume, primarily sherry and port wines; secondly, a significant growth in those wines under 14% alcohol by volume. The growth in the lower alcohol wines is attributable to the trend in consumer preference to the drier low alcohol table wines from the stronger sweeter tasting products. The table wine category now accounts for 60% of the industry volume and this segment is expected to continue to grow.

This change in consumer taste preference has been beneficial to the foreign entries in the wine market; these now account for more than 55% of all wine sales in Canada. Domestic products continue to lead in the lower alcohol sparkling and crackling wines.

Jordan Valley Wines Limited has capitalized on this trend in consumer taste preference by placing marketing emphasis on sparkling and crackling products while developing table wine products which, in our opinion, are superior to any table wines formerly produced in Canada from Canadian grapes. Jordan Valley Crackling Rosé is the largest selling crackling rosé in Canada today. New red and white table wines, Toscano and Maria Christina, available in certain major markets in Canada, compare favourably with imported "vin ordinaire" products.

Because of this re-emphasis on product marketing and product development, the company reported a modest but significant increase of 1.3% in sales volume. This increase in volume was achieved despite a policy decision of the Quebec Liquor Board which resulted in the delisting of certain brands not produced in the Province of Quebec and a reduction in brand listings in British Columbia to conform with that Government's maximum listing policy per company.

The overall performance of Jordan Valley Wines Limited has been gratifying, as the company reported increased sales and earnings for the year.

WINE OPERATIONS

FINANCIAL YEARS ENDED	MARCH 31 1978	MARCH 31 1977	% INCREASE (DECREASE)
Sales (gallons)	4,870,000	4,806,000	1.3
Sales	$31,904,000	$29,323,000	8.8
*Earnings before interest and income taxes	$ 2,383,000	$ 390,000	–
*Earnings per gallon	$.49	$.08	–

*Carling O'Keefe Limited share

Brewing Operations—Ireland

Sales and earnings of Beamish & Crawford Limited for the year ended March 31, 1978,

BREWING OPERATIONS—IRELAND			
FINANCIAL YEARS ENDED	MARCH 31 1978	MARCH 31 1977	% INCREASE (DECREASE)
Sales (barrels)	217,000	182,000	19.2
Sales	$25,123,000	$18,936,000	32.7
Earnings before interest, foreign exchange and income taxes	$ 906,000	$ 244,000	–
Foreign exchange gain (loss)	$ 678,000	$ (149,000)	–
Earnings before interest and income taxes	$ 1,584,000	$ 95,000	–
Earnings per barrel	$7.30	$.52	–

improved over the previous year. Several reasons exist for this improvement. The Irish economy strengthened considerably, with the annual rate of inflation reduced from previous years. The total beer market in Ireland resumed its growth trend, increasing by approximately 7%, while the stout share of the market declined and the ale and lager sector increased. Sales volume of Beamish & Crawford Limited increased by 19.2% as a result of industry growth in general and the consumer trend to the ale and lager segment, one in which the company is well represented.

In September 1977, a price increase was granted to the brewing industry by the Irish Government, the first such increase in eighteen months. This price increase, together with the increase in sales volume, resulted in a significant improvement in earnings for the year. During the latter part of the year the company conducted a major study of its customer base and distribution network. The benefits of this programme will be reflected in the operating results in the coming years.

OIL AND GAS OPERATIONS			
FINANCIAL YEARS ENDED	MARCH 31 1978	MARCH 31 1977	% INCREASE (DECREASE)
Sales (barrels and equivalent)	1,114,000	1,211,000	(8.0)
Sales	$6,798,000	$6,133,000	10.8
Earnings before interest and income taxes	$4,179,000	$3,948,000	5.9
Earnings per barrel	$3.75	$3.26	15.0

In spite of continued high unemployment, the Irish economy is relatively buoyant and prospects for the industry are better than they have been for several years. Beamish & Crawford Limited is in a strong position to take advantage of the renewed growth in the ale and lager markets.

Star Oil & Gas Ltd.

Star Oil & Gas Ltd. reported satisfactory results for the year under review. During the year, the company participated in an active drilling programme with the following results:

	Working Interest Wells		Royalty Interest Wells*
	Total	Star Share	
Gas	22	8.85	9
Oil	5	1.09	2
Dry and abandoned	8	1.81	2
Total wells drilled	35	11.75	13

*Drilled at no cost to Star under agreements with other companies.

The results of the year's activity on gross proven reserves prior to royalties is summarized as follows:

	Natural Gas (Bcf)	Crude Oil & Natural Gas Liquids (000's bbls.)
Proven reserves at April 1, 1977	172.0	6,790
Additions	9.7	25
Production and sales	(4.4)	(517)
Proven reserves at March 31, 1978	177.3	6,298

The current surplus of natural gas productive capacity has been brought about by the accelerated discovery and development of gas reserves and the lack of additional domestic or export markets. The company therefore, has not been able to place any of its newly discovered gas on production. In turn, this has led to a slowdown in the development drilling normally done as a result of the gas discovery wells drilled during the past year. This development drilling will be carried out as soon as a market for the gas is available.

In Western Canada, Star acquired an interest in 103,927 gross acres of prospective oil and gas lands through purchases at Crown petroleum and natural gas sales and an interest in 31,192 gross acres through drilling. Star also acquired an interest in 2,600 gross acres in the United States and an interest in 4,544,800 gross acres in an offshore permit in Western Australia.

At March 31, 1978 Star held interests in gross and net acres as follows:

	Working Interest		
	Gross Acres Held	Star Net Interest in Acres Held	Royalty Interest
Western Canada	509,541	183,348	
Arctic Islands			479,811
East Coast Offshore			368,806
United States			
Alaska	20,453	535	
Texas	2,600	325	
Australia Offshore	4,544,800	636,272	
	5,077,394	820,480	848,617

The company has an interest in several promising areas such as the West Pembina and Blackie areas of Alberta which will require drilling during the coming year. Furthermore, the company has participated in its first successful drilling programme in the United States with the discovery of oil and gas in two wells in Texas. Additional drilling on the property will be undertaken during the coming year. The company has taken a 14% interest in a petroleum and natural gas permit for 4,544,800 acres offshore Western Australia on which a marine seismic programme will be conducted.

Star plans to expand its activity in Western Canada and the United States in the coming year with more emphasis placed on the exploration for and development of oil reserves and production.

Sale of United States Brewing Operations

On December 30, 1977, the Company completed the sale of Carling National Breweries, Inc. to R & R Holdings Limited, a member of the Rothmans World Group for $30,000,000 cash. The offer was accepted only after The Chase Manhattan Bank, N.A., New York, appraised the merits of the transaction at the request of your Board of Directors and deemed the offer "fair and equitable to the Shareholders of Carling O'Keefe".

In October 1975, the brewing assets and trademarks of The National Brewing Co. were acquired by the Company's United States subsidiary in an effort to improve its earnings through stronger brands, increased volume and plant and personnel efficiencies. Operating efficiencies were achieved, and for the year ended March 31, 1977, Carling National Breweries, Inc. reported a modest profit as the result of

these efficiencies, together with the effect on sales of a three month work stoppage at a major competing national brewer.

However, in the current year, competition in the United States brewing industry intensified considerably and disrupted traditional marketing patterns. There was rapid escalation in levels of marketing spending required to support brands on a national basis and it became increasingly difficult for the Company to support and absorb these increased marketing costs. In view of the considerable risks involved, the Board of Directors considered it to be in the best interests of the Company, its Shareholders, and employees to accept the offer from R & R Holdings Limited whose greater financial resources are more commensurate with the marketing expenditures required to promote the brands of Carling National Breweries, Inc.

International Division

The royalty income from the sale of Carling Black Label in overseas markets, where it is produced under licence, continued to be an important source of income to the Company. Royalty income for the year was $1,773,000 an increase of 26.3% over the previous year. This increase reflected higher royalty rates, which increased in line with selling prices, and a favourable exchange factor when local currencies were converted to Canadian dollars. The sales volume for the year was approximately the same as in the 1976/77 fiscal year, a year which benefited from the unusually hot and dry summer in the United Kingdom.

In recognition of the importance of the International Division, the Company has appointed Mr. J. A. Gauntley, Vice President International. Mr. Gauntley will work with the current licencees and will investigate opportunities for new licencing arrangements.

Financial Position

At March 31, 1978 working capital was $49,439,000, an increase of $40,514,000 from the working capital position at March 31, 1977. The ratio of current assets to current liabilities was 2.1:1 compared to 1.1:1 at March 31, 1977. The significant improvement in the working capital ratio reflected the asset disposals during the year which realized $42,102,000 and the issue of a term bank loan for $7,000,000 which was partially offset by reductions in other long term debt. These funds were first used to reduce short term borrowing and the excess was then invested in short term investments. Details of the changes are provided in the statement of changes in financial position.

Capital expenditures on property, plant and equipment for the year were $22,774,000 of which $11,787,000 related to Canadian brewing operations, the major portion being spent on expanding production facilities in Montreal, Quebec. Expenditures on acquisition of prospective oil and gas lands and exploration for and development of oil and natural gas reserves amounted to $6,494,000. Capital additions in the wine operations were $4,329,000, the major item being the completion of the construction of the new winery in Surrey, British Columbia.

Capital expenditures planned for 1979 total $23,500,000. Major items include the expansion of activity in the exploration for and development of oil and natural gas reserves, the continuation of the expansion of brewery production facilities in Montreal, Quebec and St. John's, Newfoundland and the upgrading of wine production facilities at St. Catharines, Ontario.

CARLING O'KEEFE LIMITED

AND SUBSIDIARY COMPANIES

(Incorporated under the laws of Ontario)

Consolidated Statement of Operations

(in thousands of dollars)

	Year Ended March 31 1978	Year Ended March 31 1977 (Restated)
Income		
Sales	$381,147	$359,189
Excise and sales taxes	123,314	114,271
	257,833	244,918
Investment and other income	4,470	3,570
	262,303	248,488
Costs		
Raw materials and manufacturing	136,444	134,914
Marketing and distribution	85,747	85,318
Administrative and general	18,173	17,090
Interest on long term debt	1,565	1,401
Other interest	1,190	1,587
Foreign exchange	(678)	180
Minority interest	83	(29)
	242,524	240,461
Earnings before income taxes	19,779	8,027
Income taxes		
Current	5,392	1,025
Deferred	2,578	2,169
	7,970	3,194
EARNINGS FROM CONTINUING OPERATIONS	11,809	4,833
Loss from United States brewing operations after applicable income taxes 1978—Nil, 1977—$409	(10,157)	(101)
Earnings before extraordinary items	1,652	4,732
Extraordinary items (Note 3)	(10,211)	670
EARNINGS (LOSS) FOR THE YEAR	$ (8,559)	$ 5,402
Earnings (loss) per common share for the year		
From continuing operations	44.6 ¢	12.5¢
Before extraordinary items	(2.1)¢	12.0¢
After extraordinary items	(49.0)¢	15.1¢

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year Ended March 31 1978	Year Ended March 31 1977 (Restated)
Working capital was increased by		
Earnings from continuing operations before extraordinary items	$ 11,809	$ 4,833
Depreciation and amortization	8,501	7,777
Deferred taxes	2,578	2,169
Other items not requiring working capital	584	(288)
Working capital from continuing operations	23,472	14,491
Proceeds on sale of United States brewing subsidiary (Note 2)	29,765	—
Proceeds on sale of Canadian brewery assets and sundry property less mortgage of $6,885	10,377	—
Proceeds on disposal of property, plant and equipment and investments and other assets	1,960	2,301
Issue of term bank loan (Note 5)	7,000	—
Current portion of mortgage receivable	—	3,100
	72,574	19,892
Working capital was decreased by		
Additions to property, plant and equipment	22,774	17,844
Additions to investments and other assets	681	3,997
Purchase of shares in subsidiary company for $1,639 cash plus working capital deficiency of $365	—	2,004
Increase in advances to United States brewing subsidiary	1,105	560
Reduction of long term debt	5,239	3,485
Dividends on preference shares	2,107	2,117
Purchase of preference shares	154	132
Dividend paid by subsidiary company to minority shareholders	—	8
	32,060	30,147
Increase (decrease) in working capital	40,514	(10,255)
Working capital at beginning of year	8,925	19,180
Working capital at end of year	$ 49,439	$ 8,925

Consolidate

(in thou

ASSETS	March 31 1978	1977 (Restated)
Current assets		
Cash and short term investments, at cost which approximates market	$ 16,993	$ 1,859
Accounts receivable	26,988	26,240
Recoverable income taxes	664	1,348
Inventories		
Beverage products, finished and in process	29,257	30,264
Materials and supplies	9,429	9,979
Containers	8,284	8,375
	46,970	48,618
Prepaid expenses	3,322	2,576
Total current assets	94,937	80,641
Investment in United States brewing subsidiary, at equity (Note 2)	–	50,910
Property, plant and equipment, at cost		
Land	6,096	6,125
Buildings	64,550	60,605
Machinery and equipment	95,690	99,961
Motor vehicles	11,496	12,232
Oil and gas properties	28,721	23,011
Leasehold improvements	1,209	1,208
	207,762	203,142
Less accumulated depreciation	90,127	95,351
	117,635	107,791
Investments and other assets (Note 4)		
Mortgages and long term receivables	7,178	1,045
Sundry properties	635	7,766
Deferred charges, investments and other	6,046	6,421
	13,859	15,232
Cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition, less amortization	11,493	14,485
	$237,924	$269,059

APPROVED BY THE BOARD:

J. C. LOCKWOOD, *Director*
A. M. HENDERSON, *Director*

alance Sheet

dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 1978	March 31 1977 (Restated)
Current liabilities		
Bank indebtedness	$ 2,269	$ 32,720
Accounts payable and accrued liabilities	31,245	31,400
Income taxes	4,364	905
Other taxes	7,095	6,163
Dividends payable	525	528
Total current liabilities	45,498	71,716
Long term debt (Note 5)		
Sinking fund debentures payable in either Canadian or United States funds at par, at the option of the holder:		
Series A 4¾% due January 15, 1979	600	1,186
Series B 4¼% due January 15, 1981	2,071	2,577
Sinking fund debentures payable in Canadian funds:		
Series C 5% due January 15, 1983	2,826	3,008
Series D 5½% due April 1, 1986	5,533	7,026
Series E 5½% due April 1, 1989	8,059	11,126
Term bank loan, due March 31, 1985	7,000	—
	26,089	24,923
Less amount included in current liabilities	1,497	1,523
	24,592	23,400
Deferred income taxes	22,095	17,467
Minority interest	1,731	1,648
Shareholders' equity		
Capital stock (Note 6)		
Authorized		
865,672 preference shares with a par value of $50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	21,687	21,687
431,927 $2.65 cumulative redeemable preference shares, Series B	21,596	21,851
21,762,295 common shares	78,357	78,357
	121,640	121,895
Retained earnings	22,368	32,933
Total shareholders' equity	144,008	154,828
	$237,924	$269,059

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended March 31	
	1978	1977
Balance at beginning of year	$ 32,933	$ 29,525
Earnings (loss) for the year	(8,559)	5,402
Excess of par value over cost of preference shares purchased for cancellation	101	123
	24,475	35,050
Dividends paid		
Preference		
$2.20 per Series A share and $2.65 per Series B share	2,107	2,117
Balance at end of year	$ 22,368	$ 32,933

Analysis of Changes in Consolidated Working Capital

(in thousands of dollars)

	Year Ended March 31	
	1978	1977
		(Restated)
Increase (decrease) in current assets		
Cash and short term investments	$ 15,134	$ (689)
Accounts receivable	748	2,589
Recoverable income taxes	(684)	(613)
Inventories	(1,648)	4,376
Prepaid expenses	746	382
Total	14,296	6,045
(Increase) decrease in current liabilities		
Bank indebtedness	30,451	(8,342)
Accounts payable and accrued liabilities	155	(7,845)
Income taxes	(3,459)	1,251
Other taxes	(932)	(1,367)
Dividends payable	3	3
Total	26,218	(16,300)
Increase (decrease) in working capital	$ 40,514	$(10,255)

Notes to Consolidated Financial Statements

MARCH 31, 1978 AND 1977

1. Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies with the exception of Carling National Breweries, Inc. and its wholly owned subsidiary, Century Importers Inc., which have been accounted for on the equity basis (Note 2). The principal operating subsidiaries are listed on Page 24. Purchase accounting has been followed for all acquisitions. For certain subsidiaries acquired prior to April 1, 1974 the excess of the cost of shares over the value of the underlying net tangible assets at the time of acquisition is carried at cost and is not amortized. In accordance with current accounting practice, intangible assets acquired subsequently are amortized over periods not exceeding forty years.

RESTATEMENT OF PRIOR YEAR'S AMOUNTS

In order to provide comparative financial statements which relate to the continuing operations of the Company, the 1977 amounts have been restated to account for the investment in the former United States brewing subsidiary on the equity basis.

FOREIGN EXCHANGE

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in the consolidated statement of operations.

INVENTORIES

Inventories of beverage products, materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is provided on the straight line basis at the following rates per annum:

Buildings	2%- 6⅔%
Machinery and equipment	5%-10%
Motor vehicles	10%-25%

Oil and gas properties are accounted for on the full cost method, whereby all costs of exploration and development are capitalized and amortized against income using the unit of production method based on proven oil and gas reserves.

INVESTMENTS AND OTHER ASSETS

Investments and other assets are recorded at cost or amortized cost.

PENSIONS

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are charged to operations as they are funded in accordance with legal requirements over periods ranging from five to fifteen years.

MARKETING COSTS

Marketing costs including those related to the introduction of new brands are charged to operations during the year primarily in relation to sales, and are fully expensed by the end of the year in which the cost is incurred.

INCOME TAXES

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. These timing differences arise principally between accounting and tax depreciation.

2. Sale of Investment in United States Brewing Subsidiary

On December 30, 1977 the Company sold Carling National Breweries, Inc., including its subsidiary Century Importers Inc., to R & R Holdings Limited, Soc. An., a member of the Rothmans World Group, for $30,000,000 cash. The sale resulted in a loss of $12,093,000, as follows:

Investment in United States brewing subsidiary, at equity:	
Balance at March 31, 1977	$50,910,000
Advances during the period	1,105,000
	52,015,000
Operating loss for the period	(10,157,000)
Balance at December 30, 1977	41,858,000
Proceeds, net of costs	29,765,000
Loss on sale of investment	($12,093,000)

The loss on the sale of the investment has been shown as an extraordinary item and is not available to be offset against taxable income.

Prior to the sale, Carling National Breweries, Inc. paid $740,000 to The O-W Fund, Inc., successor to The National Brewing Co., and obtained a release from any obligation for additional consideration under the terms of the original purchase agreement for the brewing assets and trademarks of The National Brewing Co. Mr. J. C. Hoffberger, a Director of the Company at the time of the transaction, is a Shareholder and a Director of The O-W Fund, Inc.

3. Extraordinary Items

	1978	1977
Loss on sale of investment in United States brewing subsidiary (Note 2)	$(12,093,000)	$ –
Gain on sale of Canadian brewery assets and sundry property less income taxes of $2,253,000	3,722,000	–
Unamortized excess of cost of shares of Le Club de Hockey Les Nordiques Inc. written off	(1,840,000)	–
Tax reduction arising from utilization of loss carry-forward in former United States subsidiary	–	670,000
	$(10,211,000)	$ 670,000

✓

4. Investments and Other Assets

On February 21, 1978 the Company sold its property located at Yonge and Front Streets, Toronto, for $8,100,000. The consideration included a first mortgage of $6,885,000 due in 1981.

5. Long Term Debt

In June 1977, the Company arranged a term bank loan of $7,000,000, bearing interest until March 31, 1979 at 1¼% over the bank's prime rate and thereafter at 1% over prime. The loan is repayable in varying instalments up to March 31, 1985.

Principal payments on long term debt for the years 1979 through 1983 are as follows: 1979—$1,497,000; 1980—$2,732,000; 1981—$2,860,000; 1982—$3,800,000; 1983—$3,800,000.

6. Capital Stock

The Series A and B preference shares are redeemable at $53.00 and $52.50 per share respectively. During the year ended March 31, 1978, 5,090 Series B shares were purchased for cancellation (1977—5,098). ✓

Rothmans Investments Limited, a wholly owned subsidiary of Rothmans of Pall Mall Canada Limited, is the owner of record of 50.1% of the Company's common shares.

7. Remuneration of Directors and Senior Officers

Total remuneration of Directors and Senior Officers for the year ended March 31, 1978 was $692,000 (1977—$820,000).

8. Pensions

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees and it is the Company's policy to fund pensions with independent trustees. Based on actuarial valuations, unfunded prior

service costs are estimated at $2,900,000. These amounts are being funded over periods ranging from five to fifteen years as described in Note 1. Total pension expense for the continuing operations for the year ended March 31, 1978 was $4,035,000 (1977—$4,012,000).

9. Commitments and Contingent Liabilities

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark, the Company and its affiliates have access to the brewing research and technical knowledge of United Breweries, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trademarks in Canada, the United States and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

On April 28, 1978, in consideration of a payment of $600,000 to the minority shareholders of Jordan Valley Wines Limited the commitment to acquire the minority interest (8.1%) has been extended to the 1982 fiscal year. The purchase price will be at least equal to $2,993,000. Mr. N. Torno, a Director of the Company, and a member of his family hold the minority shares.

In 1977 a 40% interest in the partnership which owns the Toronto Argonaut Football Club was acquired for $2,000,000 cash. Under certain circumstances, and subject to certain conditions, the Company may be obliged to acquire the remaining interest in the partnership on similar terms.

Capital expenditures for 1979 are expected to aggregate $23,500,000.

There are a number of outstanding claims and legal actions involving the Company. In the opinion of management, the outcome of these matters should have no material adverse effect on the Company's financial position.

10. Anti-Inflation Programme

The Company and its Canadian subsidiaries are subject to and believe they have complied with the controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act, effective October 14, 1975.

11. Other

Certain specific unaudited information with respect to the estimated March 31, 1978 replacement cost of inventories and productive capacity and the approximate effect which replacement costs would have had on the cost of sales and depreciation expense for the year, is included in the Company's Form 10-K which is filed annually with the Securities and Exchange Commission, Washington, D.C.

The summary information on continuing operations by segment is presented on Page 19. Summarized unaudited quarterly financial data for 1978 and 1977 is included on Page 22.

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

May 15, 1978

Auditors' Report

TO THE SHAREHOLDERS OF CARLING O'KEEFE LIMITED:

We have examined the consolidated statements of operations, retained earnings, analysis of changes in working capital and changes in financial position of Carling O'Keefe Limited for the year ended March 31, 1978 and the consolidated balance sheet as at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of operations, changes in working capital and changes in financial position of the Company for the year ended March 31, 1978 and its financial position as at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

FIVE YEAR FINANCIAL SUMMARY

(in thousands of dollars)

	Year Ended				
	March 31			June 30	
	1978	1977	1976	1975	1974
		(Restated)	(Restated)	(Restated)	(Restated)
Results for the Year					
Sales	$381,147	$359,189	$343,511	$322,533	$285,954
Excise and sales taxes	123,314	114,271	114,012	112,357	106,514
Sales excluding taxes	257,833	244,918	229,499	210,176	179,440
Operating costs	231,863	229,545	205,997	190,927	166,986
Investment and other income	4,470	3,570	3,455	3,007	3,228
Foreign exchange gain (loss)	678	(180)	(1,123)	(675)	(1,738)
Interest expense	2,755	2,988	3,024	3,476	3,696
Minority interest	83	(29)	167	168	137
Depreciation and amortization	8,501	7,777	7,843	7,675	7,219
Earnings from continuing operations before income taxes	19,779	8,027	14,800	10,262	2,892
Income taxes	7,970	3,194	4,466	2,466	1,316
Earnings from continuing operations	11,809	4,833	10,334	7,796	1,576
Loss from United States brewing operations	(10,157)	(101)	(9,488)	(8,700)	(6,597)
Earnings (loss) before extraordinary items	1,652	4,732	846	(904)	(5,021)
Extraordinary items less applicable income taxes					
Continuing operations	1,882	—	—	—	505
United States brewing operations	(12,093)	670	(3,363)	—	1,036
Net earnings (loss)	$(8,559)	$ 5,402	$ (2,517)	$ (904)	$ (3,480)
Dividends paid—preference	$ 2,107	$ 2,117	$ 2,132	$ 2,142	$ 2,153
Net earnings (loss) per common share					
From continuing operations	44.6 ¢	12.5¢	37.7 ¢	26.0 ¢	(2.7)¢
Before extraordinary items	(2.1)¢	12.0¢	(5.9)¢	(14.0)¢	(33.0)¢
After extraordinary items	(49.0)¢	15.1¢	(21.4)¢	(14.0)¢	(25.9)¢
Year end position					
Current assets	$ 94,937	$ 80,641	$ 74,596	$ 81,692	$ 79,843
Current liabilities	45,498	71,716	55,416	49,102	46,531
Working capital	49,439	8,925	19,180	32,590	33,312
Property, plant and equipment—net	117,635	107,791	98,577	100,372	99,830
Investments and other assets	13,859	15,232	15,730	16,431	19,719
Intangible assets	11,493	14,485	12,618	11,902	11,902
United States brewing subsidiary, at equity	—	50,910	49,782	46,053	47,776
Less: Long term debt	24,592	23,400	27,200	30,189	33,823
Deferred income taxes	22,095	17,467	15,298	14,440	12,931
Minority interest	1,731	1,648	1,714	3,394	3,313
Shareholders' equity	$144,008	$154,828	$151,675	$159,325	$162,472
Current ratio	2.1	1.1	1.3	1.7	1.7
Return on shareholders' equity	(5.9)%	3.5%	(1.7)%	(0.6)%	(2.1)%
Return on capital employed	8.4 %	4.8%	7.3 %	6.2 %	2.3 %
Preference share capital	$ 43,283	$ 43,538	$ 43,793	$ 43,974	$ 44,224
Book value per common share	$4.63	$5.11	$4.96	$5.30	$5.43

Return on capital employed represents earnings from continuing operations excluding deferred income taxes and after tax interest expense divided by average capital employed. Capital employed is the average of the opening and closing balances of shareholders' equity (net of United States brewing subsidiary, at equity), interest bearing debt, deferred taxes and minority interest.

Summary Information on Continuing Operations by Segment
(in thousands of dollars)

	Sales		Earnings	
	1978	1977	1978	1977
Beer—Canada	$317,322	$304,797	$ 12,627	$ 6,816
—Ireland	25,123	18,936	1,584	95
Wine	31,904	29,323	2,383	390
Oil and gas	6,798	6,133	4,179	3,948
	$381,147	$359,189	20,773	11,249
Corporate income (expense)—net			1,761	(234)
Interest expense			(2,755)	(2,988)
Income taxes			(7,970)	(3,194)
Earnings from continuing operations			$ 11,809	$ 4,833

	Identifiable Assets		Capital Expenditures		Depreciation and Depletion	
	1978	1977	1978	1977	1978	1977
Beer—Canada	$120,679	$122,438	$11,787	$ 9,286	$ 5,780	$ 5,539
—Ireland	15,251	13,390	164	212	554	539
Wine	51,046	47,949	4,329	3,055	941	880
Oil and gas	28,015	21,960	6,494	5,291	1,160	754
	214,991	205,737	$22,774	$17,844	$ 8,435	$ 7,712
Corporate	22,933	12,412				
United States	—	50,910				
	$237,924	$269,059				

Earnings by segment represents total sales less all operating expenses other than corporate costs, interest and income taxes. Identifiable assets are those that are used in the Company's operations in each industry with corporate assets comprised of cash, short term investments and mortgages receivable.

Lines of Business and Segmented Information

Carling O'Keefe Limited, through its subsidiaries, manufactures and sells brewery and wine products in Canada and brewery products in Ireland. It also owns a producing oil and gas company in Canada. All subsidiaries are wholly owned with the exception of Jordan Valley Wines Limited (91.9%) and Le Club de Hockey Les Nordiques Inc. (91.5%).

Carling O'Keefe Breweries of Canada Limited is one of three major brewing companies who together account for approximately 97% of all Canadian beer sales. The company operates eight breweries in Canada with one plant in each of the Provinces of Newfoundland, Quebec, Ontario, Manitoba, Alberta and British Columbia and two plants in the Province of Saskatchewan. Total annual brewing capacity is approximately 4,850,000 barrels. Five plants in the Province of Ontario, having a capacity of approximately 950,000 barrels, were sold during 1978. Principal brands are O'Keefe Ale, Old

Vienna, Carling Black Label, Carlsberg, Colt 45 and Highlite.

Jordan Valley Wines Limited sells in all Provinces and Territories of Canada and operates seven wineries with a combined storage capacity of approximately 12,000,000 gallons. One winery is located in each of the Provinces of Manitoba, Saskatchewan and Alberta with two wineries in each of the Provinces of Ontario and British Columbia. During 1978, the new winery at Surrey, British Columbia was completed and the winery at Victoria will be closed and its operations transferred to Surrey. The company uses two trading styles, Jordan and Ste-Michelle.

Star Oil & Gas Ltd. is engaged in the exploration, development and production of oil and gas in Canada and the United States. The estimated proven developed and undeveloped gross crude oil and natural gas liquids and natural gas reserves before royalties at March 31, 1978 were 6,298,000 barrels and 177.3 Bcf respectively. These are primarily located in the Provinces of Alberta and Saskatchewan.

Beamish & Crawford Limited owns and operates a brewery in Cork, Republic of Ireland. The Irish market is dominated by one major brewer who accounts for approximately 90% of the total industry with the remaining market shared by Beamish & Crawford Limited and one other brewer. Principal brands are Carling Black Label, Carlsberg and Bass Ale.

Other income is derived from investments and from royalties under licencing arrangements for the production and sale of Carling Black Label.

Common Stock Quarterly Stock Price Comparison
The following table sets forth on a quarterly basis, the high and low sales prices on the Toronto Stock Exchange for the two years ended March 31, 1978:

	1978 Market Price		1977 Market Price	
Quarter	High	Low	High	Low
First	$3.15	$2.71	$3.65	$3.05
Second	3.05	2.48	3.40	2.82
Third	3.60	2.27	3.25	2.62
Fourth	4.00	3.05	3.25	2.71

No common dividends were paid during this period.

Management's Discussion and Analysis of Operations

The following explanatory comments relate to the continuing operations of the Company and should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this report.

Income
Sales revenue increased by $21,958,000 or 6.1% in 1978. Higher unit selling prices provided an increase of $25,000,000 which was offset by a decrease of $3,000,000 due to a net volume decline. Canadian beer sales, which represented 83% of total sales, decreased 2% by volume due to the sale of the Doran's brands and a small decline in share of market. Irish sales volume and revenue increased significantly. Oil and gas volume was 8% lower than the prior year but revenue increased 10.8% due to higher selling prices.

The increase in excise and sales taxes related primarily to the higher revenue on which sales taxes were calculated.

Sales revenue in 1977 which increased $15,678,000 or 4.6% over the previous year reflected higher selling prices partially offset by a decline in sales volume.

The increase in investment and other income, which was $900,000 or 25.2% higher than in 1977, was the result of increased royalty and

investment income. The increase in investment income resulted from investment of funds received from the sale of the United States brewing subsidiary. In 1977, investment and other income increased only slightly over the previous year.

Costs

Raw materials and manufacturing costs increased $1,530,000 or 1.1% in 1978 despite lower volumes. Increased unit cost for labour and other manufacturing expenses were offset by benefits gained from lower malt costs and the consolidation of operations in Ontario. In 1977 costs increased $10,815,000 or 8.7% primarily due to increased unit costs for labour and packaging materials offset by lower malt costs which had escalated substantially in the preceding year.

Marketing and distribution costs increased $429,000 or 0.5% in 1978 primarily due to increased distribution costs offset by a reduction in marketing costs. The increase in costs of $11,453,000 or 15.5% in 1977 resulted from higher unit costs and increased marketing activities.

Administrative and general expenses were higher by $1,083,000 or 6.3% in 1978 and reflected generally higher unit costs. Similar general increases were recorded in 1977 in the amount of $1,214,000 or 7.6%.

The issue of a $7,000,000 term bank loan during the year accounted for the increased long term debt interest. Other interest declined as the proceeds from the sale of assets were used to reduce the outstanding short term debt.

Foreign exchange gain in 1978 reflected the increased value of the pound sterling compared to the Canadian dollar. In 1977 there was a small decline in the value of the pound after a significant fall in the previous year.

In both 1978 and 1977 the income tax provision represented approximately 40% of earnings. In 1978 these amounts were lower than the standard rates applicable due to various tax incentive programmes, including the inventory allowance, and non-taxable items offset by a provision relating to prior years. In 1977 the reduction was due to the incentive programmes and non-taxable items.

Losses from the former United States brewing operations were $10,157,000 for the nine months to December 30, 1977 compared to $101,000 for the year ended March 31, 1977. The loss in the current year resulted primarily from increased marketing costs and inadequate price increases which reflected the very competitive situation in the United States brewing industry. The 1977 loss was much lower than the prior year due in part to the effect on sales volume of a three month work stoppage at a major competing national brewer.

The loss on the sale of the Company's investment in the United States brewing subsidiary of $12,093,000 was recorded as an extraordinary item in 1978. Other extraordinary items in 1978 included the sale of the assets and trademarks used in Doran's brewing and soft drink operations in Northern Ontario, the sale of the brewery in Waterloo, Ontario, the sale of property located at Yonge and Front Streets, Toronto and the write-off of the unamortized excess cost of Le Club de Hockey Les Nordiques Inc.

In 1977 a tax reduction of $670,000 was recorded as an extraordinary item. This resulted from the utilization of a loss carry-forward in the former United States subsidiary.

It should be noted that results from operations from one quarter to the next are not comparable nor an indication of annual results due to the seasonal nature of the beverage industry, which traditionally has greater sales and earnings in the summer months.

QUARTERLY FINANCIAL DATA

(in thousands of dollars)

	Quarter Ended			
1978	June 30	Sept. 30	Dec. 31	Mar. 31
Sales				
As previously reported	$174,793	$171,066	$144,340	$ 77,137
United States operations	71,186	66,026	48,977	–
Continuing operations	$103,607	$105,040	$ 95,363	$ 77,137
Gross profit (1)	$ 32,749	$ 33,525	$ 31,316	$ 23,799
Earnings from continuing operations	$ 3,171	$ 3,791	$ 4,370	$ 477
Earnings (loss) from United States brewing operations	(319)	(3,674)	(6,164)	–
Earnings (loss) before extraordinary items	2,852	117	(1,794)	477
Extraordinary items less applicable income taxes				
Continuing operations	–	3,310	–	(1,428)
United States brewing operations	–	–	(12,093)	–
Net earnings (loss)	$ 2,852	$ 3,427	$(13,887)	$ (951)
Net earnings (loss) per common share				
From continuing operations	12.1¢	15.0 ¢	17.7 ¢	(.2)¢
Before extraordinary items	10.7¢	(1.9)¢	(10.7)¢	(.2)¢
After extraordinary items	10.7¢	13.3 ¢	(66.2)¢	(6.8)¢
1977				
Sales				
As previously reported	$165,017	$160,601	$133,138	$121,964
United States operations	68,862	59,254	43,598	49,817
Continuing operations	$ 96,155	$101,347	$ 89,540	$ 72,147
Gross profit (1)	$ 29,402	$ 32,046	$ 26,824	$ 21,732
Earnings (loss) from continuing operations	$ 1,723	$ 3,035	$ 1,677	$ (1,602)
Earnings (loss) from United States brewing operations	2,715	155	(1,212)	(1,759)
Earnings (loss) before extraordinary item	4,438	3,190	465	(3,361)
Extraordinary item				
United States brewing operations	–	–	–	670
Net earnings (loss)	$ 4,438	$ 3,190	$ 465	$ (2,691)
Net earnings (loss) per common share				
From continuing operations	5.5¢	11.5¢	5.3 ¢	(9.8)¢
Before extraordinary item	18.0¢	12.2¢	(.3)¢	(17.9)¢
After extraordinary item	18.0¢	12.2¢	(.3)¢	(14.8)¢

(1) Sales less excise and sales taxes and raw materials and manufacturing costs.

In the fourth quarter of 1978 the sale of a sundry property (Note 4) and the write off of unamortized excess cost of shares of Le Club de Hockey Les Nordiques Inc. were recorded.

CARLING O'KEEFE LIMITED

Directors:

CONRAD M. BLACK, LL.L., M.A.	Chairman Sterling Newspapers Ltd. Toronto, Ontario
JOHN P. U. BURR, M.B.E.	Director Bass Charrington Limited London, England
BRIGADIER GENERAL W. PRESTON GILBRIDE C.B.E., D.S.O., E.D., LL.D.*†	Chairman Grafton Group Limited Toronto, Ontario
A. MAXWELL HENDERSON, O.B.E., F.C.A., LL.D.*†	Consultant Toronto, Ontario
A. SEARLE LEACH, O.C., LL.D.*	Honorary Chairman Federal Industries Ltd. Winnipeg, Manitoba
HON. JEAN LESAGE, P.C., C.C., Q.C., LL.D.	Senior Partner Lesage, Paquet & Lesage Québec, Québec
JOHN C. LOCKWOOD†	Chairman of the Board and President Carling O'Keefe Limited Toronto, Ontario
I. LOYOLA MATTE	Président La Brasserie O'Keefe Limitée Montréal, Québec
S. RODERICK McINNES, C.A.	Chairman, President and Chief Executive Officer Carling O'Keefe Breweries of Canada Limited Toronto, Ontario
ANTHON W. NIELSEN, C.B.E.	Chairman United Breweries International Ltd. Copenhagen, Denmark
GEORGE C. SOLOMON*	President Western Limited Regina, Saskatchewan
NOAH TORNO, M.B.E.†	Chairman, President and Chief Executive Officer Jordan Valley Wines Limited Toronto, Ontario

*Member of the Audit Committee of the Board
†Member of the Pension and Compensation Committee of the Board

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Officers:

Chairman of the Board and President	JOHN C. LOCKWOOD
Executive Vice President Finance	RALPH L. BEATTY
Vice President International	J. ANTHONY GAUNTLEY
Vice President Legal and Secretary	PETER JOHN YOUNG
Treasurer	ALAN M. HODGE
Assistant Secretary	JUNE W. BELL

CARLING O'KEEFE LIMITED

Principal operating subsidiary companies:

CANADA

CARLING O'KEEFE BREWERIES OF CANADA LIMITED
LA BRASSERIE O'KEEFE LIMITÉE
JORDAN VALLEY WINES LIMITED (91.9% owned)
STAR OIL & GAS LTD.

REPUBLIC OF IRELAND

BEAMISH & CRAWFORD LIMITED

Chief Executive Officers of Principal Operating Subsidiaries:

Carling O'Keefe Breweries of Canada Limited	S. RODERICK McINNES
La Brasserie O'Keefe Limitée	I. LOYOLA MATTE
Jordan Valley Wines Limited	NOAH TORNO
Star Oil & Gas Ltd.	RALPH A. ESTELLE
Beamish & Crawford Limited	R. ANTHONY HALPIN

Executive Offices: 79 ST. CLAIR AVENUE EAST, TORONTO, CANADA M4T 1M6

Auditors: PRICE WATERHOUSE & CO.

Bankers:
BANK OF MONTREAL
THE ROYAL BANK OF CANADA
CHEMICAL BANK—NEW YORK

Registrars:
IN CANADA
MONTREAL TRUST COMPANY

IN THE UNITED STATES
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Transfer Agents:
IN CANADA
NATIONAL TRUST COMPANY, LIMITED
Ontario, Quebec, Manitoba, Alberta and British Columbia
CANADA PERMANENT TRUST COMPANY
New Brunswick and Nova Scotia
THE CANADA TRUST COMPANY
Saskatchewan

IN THE UNITED STATES
THE CHASE MANHATTAN BANK

Form 10-K: Carling O'Keefe Limited common shares are traded on the New York Stock Exchange and the Company therefore files an annual report on Form 10-K with the Securities and Exchange Commission in Washington, D.C. Shareholders may obtain a copy of this report by writing to the Vice President Legal and Secretary of the Company.

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CARLING O'KEEFE LIMITED

Executive Offices: 79 St. Clair Avenue East, Toronto, Canada, M4T 1M6

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

JULY 5, 1978

The annual meeting of the shareholders of Carling O'Keefe Limited (the "Corporation") will be held in the Regency Room, Four Seasons Hotel, Toronto, (formerly the Hyatt Regency Hotel), 21 Avenue Road, Toronto, Ontario, on Wednesday, July 5, 1978 at 2:00 o'clock in the afternoon (Toronto time) for the following purposes:

1. to receive the consolidated financial statements of the Corporation and its consolidated subsidiaries for the year ended March 31, 1978 together with the reports of the directors and auditors thereon;
2. to elect directors;
3. to appoint auditors and authorize the directors to fix their remuneration; and
4. to transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

DATED at Toronto, May 16, 1978.

By Order of the Board of Directors

PETER JOHN YOUNG,
Vice President Legal and Secretary.

NOTE: Shareholders unable to be present in person are asked to fill in, date, sign and return the enclosed instrument of proxy in the self-addressed envelope provided.

PROXY STATEMENT AND INFORMATION CIRCULAR

This statement is furnished in connection with the solicitation of proxies by the management of Carling O'Keefe Limited (herein sometimes called the "Corporation") for use at the annual meeting of shareholders of the Corporation to be held on July 5, 1978 at 2:00 o'clock in the afternoon (Toronto time) in the Regency Room, Four Seasons Hotel, Toronto (formerly the Hyatt Regency Hotel), 21 Avenue Road, Toronto, Ontario, for the purposes set forth in the foregoing Notice of Annual Meeting of Shareholders (which annual meeting is herein called the "Meeting"). Only holders of common shares of record on the date of the Meeting will be entitled to vote at the Meeting. Each such holder of a common share is entitled to one vote for each such share held.

This proxy statement together with the instrument of proxy, will be mailed to holders of common shares of record commencing on or about June 12, 1978.

NOMINEES

The persons named in the enclosed form of proxy intend to vote for the election of the 12 nominees to the Board of Directors whose names are set forth below. The term of office for each such nominee shall be from the date of the Meeting until the next annual meeting of shareholders or until his successor is elected or appointed. **In the event that prior to the Meeting any vacancies occur in the slate of nominees submitted herewith it is intended that discretionary authority shall be granted to vote the proxy for the election of any other person or persons as directors.** The management is not presently aware that any of such nominees would be unwilling to serve as a director if elected.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

Name and Principal Occupation	Age	Year first became a Director (2)	Common shares beneficially owned as of May 16, 1978 (1) (excluding qualifying share)
CONRAD M. BLACK, LL.L., M.A., of Toronto, Ontario Chairman, Sterling Newspapers Ltd., (newspaper and printing company)	33	1978	– (3)
JOHN P. U. BURR, M.B.E., of London, England Director, Bass Charrington Limited (brewing company)	59	1977	– (4)
†*BRIG. GEN. W. PRESTON GILBRIDE, C.B.E., D.S.O., E.D., LL.D., of Toronto, Ontario Chairman, Grafton Group Limited (merchandising company)	67	1975	10,000
†*A. MAXWELL HENDERSON, O.B.E., F.C.A., LL.D., of Toronto, Ontario Auditor General of Canada from 1960 to 1973, now a consultant	70	1975	1,000
*A. SEARLE LEACH, O.C., LL.D., of Winnipeg, Manitoba Honorary Chairman, Federal Industries Ltd. (holding company)	68	1964	1,000(5)
HON. JEAN LESAGE, P.C., C.C., Q.C., LL.D., of Quebec, Quebec Senior partner of the legal firm of Lesage, Paquet and Lesage	65	1975	3,000
†JOHN C. LOCKWOOD, of Toronto, Ontario Chairman of the Board and President, Carling O'Keefe Limited (holding company)	65	1975	2,500(6)
I. LOYOLA MATTE, of Montreal, Quebec President, La Brasserie O'Keefe Limitée (brewing company)	61	1977	– (7)
S. RODERICK MCINNES, C.A., of Toronto, Ontario Chairman, President and Chief Executive Officer, Carling O'Keefe Breweries of Canada Limited (brewing company)	44	1976	–
ANTHON W. NIELSEN, C.B.E., of Copenhagen, Denmark Chairman, United Breweries International Ltd. (brewing company)	69	1972	250
*GEORGE C. SOLOMON, of Regina, Saskatchewan President, Western Limited (real estate holding company)	65	1964	1,600
†NOAH TORNO, M.B.E., of Toronto, Ontario Chairman, President and Chief Executive Officer, Jordan Valley Wines Limited (wine company)	67	1975	10,000(8)

*member of the Audit Committee of the Board of Directors.
†member of the Pension and Compensation Committee of the Board of Directors.

(1) The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective Directors individually.

(2) Each of the nominees has served as a Director since the year he first became a Director.

(3) Mr. C. M. Black has served as Chairman of the Board of Sterling Newspapers Ltd., since at least 1973.

(4) Mr. J. P. U. Burr is a Director of Bass Charrington Limited which as of May 16, 1978 was the owner of record of 232,345 common shares of the Corporation. Mr. Burr is also Chairman of Bass Production Limited, a subsidiary of Bass Charrington Limited, and has held senior executive positions in that company since at least 1973.

(5) Mr. A. S. Leach also has a one-third interest in a family holding company, Leach Investments Limited, which, as of May 16, 1978 was the beneficial owner of 5,000 common shares of the Corporation.

(6) Mr. John C. Lockwood is a Director of Rothmans of Pall Mall Canada Limited, whose subsidiary, Rothmans Investments Limited, was the owner of record of 10,907,487 common shares of the Corporation as of May 16, 1978.

(7) Mr. I. L. Matte is also Executive Vice President, Eastern Region of Carling O'Keefe Breweries of Canada Limited.

(8) Mr. N. Torno and a member of his family were the owners of record as of May 16, 1978 of 13,793 common shares and 3,448 common shares, respectively, of Jordan Valley Wines Limited, a subsidiary of the Corporation.

REMUNERATION AND OTHER TRANSACTIONS WITH MANAGEMENT AND OTHERS

The information set out below is given for the year ended March 31, 1978 with respect to the aggregate remuneration directly or indirectly paid by the Corporation or its subsidiaries to the Corporation's officers and directors.

Number of persons in group and capacities in which remuneration was received	Aggregate direct remuneration	Paid under the Retirement Income Plan	Estimated annual benefits at normal retirement
Each director of the Corporation whose aggregate direct remuneration exceeded $40,000 and each of its three highest paid officers whose aggregate direct remuneration exceeded that amount:			
John C. Lockwood, Chairman of the Board, President and Director	$ 50,960	$ –	$ –
S. Roderick McInnes, Director; Chairman, President and Chief Executive Officer of Carling O'Keefe Breweries of Canada Limited	102,815	10,500	52,840
Noah Torno, Director; Chairman, President and Chief Executive Officer of Jordan Valley Wines Limited	76,851	–	25,000
I. Loyola Matte, Director; President, La Brasserie O'Keefe Limitée	71,306	7,304	31,384
Ralph L. Beatty, Executive Vice President, Finance	78,741	8,024	60,000
Peter John Young, Vice President Legal and Secretary	48,047	4,871	42,647
Officers as a group (3 persons) excluding the persons referred to above	96,374	8,362	34,961
Directors as a group (8 persons) excluding the persons referred to above	166,822	4,041	–

The foregoing annual benefits estimated to be payable upon retirement are based upon normal retirement ages and include benefits purchased with each participant's own contributions under the Retirement Income Plan. Such benefits have been projected, in all applicable cases, on assumption of (1) continuation of employment at present salaries, (2) continuation of the present Retirement Income Plan without changes, and (3) continuation of participation in such Plan until age 65.

As at March 31, 1978 Mr. Torno and a member of his family held the 8.1% minority interest in the Corporation's subsidiary, Jordan Valley Wines Limited. By agreement dated April 28, 1978 and for a consideration of $600,000 payable in fiscal 1979, the Corporation's commitment to acquire the remaining minority shares was extended by the minority shareholders to the 1982 fiscal year. The purchase price will be based on earnings of Jordan Valley Wines Limited but in no event will be less than $2,993,000. At the same time Jordan Valley Wines Limited entered into an employment agreement with Mr. N. Torno covering his services as Chief Executive Officer of Jordan

Valley Wines Limited at an annual salary of $75,000 until the end of the 1981 fiscal year and a retirement allowance of $50,000 per annum thereafter during the balance of his lifetime. In the opinion of management the foregoing arrangements are as reasonable as those which would have resulted from negotiations between the Corporation and an unaffiliated third party.

On December 30, 1977 the Corporation completed the sale of its U.S. brewing subsidiary, Carling National Breweries, Inc., to R & R Holdings Limited, Soc. An., for $30 million (Canadian) cash. R & R Holdings is an associated company of the Rothmans World Group. At the request of the Board of Directors, The Chase Manhattan Bank, N.A., New York, appraised the merits of the transaction and deemed the offer "fair and equitable to the Shareholders of the Corporation". Prior to the sale, Carling National Breweries, Inc., paid $740,000 to The O-W Fund, Inc., successor to The National Brewing Co., and obtained a release from any obligation for additional consideration under the terms of the original purchase agreement for the brewing assets and trademarks of The National Brewing Co. Mr. J. C. Hoffberger, a Director of the Corporation at the time of the transaction, is a shareholder and a Director of The O-W Fund, Inc.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As at May 16, 1978 the Corporation had outstanding 21,762,295 common shares.

Rothmans Investments Limited is the owner of record of more than 10% of the outstanding common shares of the Corporation owning 10,907,487 common shares or 50.1% as at May 16, 1978. Rupert Foundation Soc. An., 11 Boulevard du Prince Henri, Luxembourg, is the beneficial owner of the aforementioned shares as it controls Rothmans Investments Limited through Rothmans of Pall Mall Canada Limited.

VOTING OF PROXY

On any poll the persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the directions in the proxy appointing them.

In the absence of such directions, such shares will be voted on any poll for the election as directors of the nominees named in this circular and in favour of the appointment of Price Waterhouse & Co., as auditors of the Corporation to hold office until the next annual meeting of shareholders at a remuneration to be fixed by the Board of Directors.

A shareholder has the right to appoint a person (who need not be a shareholder) to attend and act for and on behalf of such shareholder at the Meeting other than the persons designated in the enclosed form of proxy. To exercise this right the shareholder may insert the name of the desired person in the blank space provided in the proxy and strike out the other names or may submit another appropriate proxy.

A shareholder executing the enclosed proxy has the power to revoke it at any time before it is exercised. Section 116(4) of The Business Corporations Act, 1970, of Ontario, sets out a procedure for revoking proxies by the deposit of an instrument in writing at the head office of the Corporation or with the chairman of the Meeting.

GENERAL

The enclosed proxy is solicited by the management of the Corporation and the costs thereof will be borne by the Corporation. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Corporation.

Price Waterhouse & Co., have been the Corporation's auditors since 1969 and have been nominated for reappointment to hold office for the current year. A representative of Price Waterhouse & Co., is expected to be present at the Meeting with an opportunity to make a statement if he desires and to answer questions by shareholders. The management knows of no matters to come before the Meeting other than the matters referred to in the Notice of Annual Meeting of Shareholders. However, if any other matters which are not known to the management should properly come before the Meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

By order of the Board of Directors

Peter John Young,
Vice President Legal and Secretary.

Dated as of May 16, 1978.

CARLING O'KEEFE LIMITED

Executive Offices: 79 St. Clair Avenue East, Toronto, Canada, M4T 1M6

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

JULY 5, 1978

The annual meeting of the shareholders of Carling O'Keefe Limited (the "Corporation") will be held in the Regency Room, Four Seasons Hotel, Toronto, (formerly the Hyatt Regency Hotel), 21 Avenue Road, Toronto, Ontario, on Wednesday, July 5, 1978 at 2:00 o'clock in the afternoon (Toronto time) for the following purposes:

1. to receive the consolidated financial statements of the Corporation and its consolidated subsidiaries for the year ended March 31, 1978 together with the reports of the directors and auditors thereon;
2. to elect directors;
3. to appoint auditors and authorize the directors to fix their remuneration; and
4. to transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

DATED at Toronto, May 16, 1978.

By Order of the Board of Directors

PETER JOHN YOUNG,
Vice President Legal and Secretary.

NOTE: Shareholders unable to be present in person are asked to fill in, date, sign and return the enclosed instrument of proxy in the self-addressed envelope provided.

PROXY STATEMENT AND INFORMATION CIRCULAR

This statement is furnished in connection with the solicitation of proxies by the management of Carling O'Keefe Limited (herein sometimes called the "Corporation") for use at the annual meeting of shareholders of the Corporation to be held on July 5, 1978 at 2:00 o'clock in the afternoon (Toronto time) in the Regency Room, Four Seasons Hotel, Toronto (formerly the Hyatt Regency Hotel), 21 Avenue Road, Toronto, Ontario, for the purposes set forth in the foregoing Notice of Annual Meeting of Shareholders (which annual meeting is herein called the "Meeting"). Only holders of common shares of record on the date of the Meeting will be entitled to vote at the Meeting. Each such holder of a common share is entitled to one vote for each such share held.

This proxy statement together with the instrument of proxy, will be mailed to holders of common shares of record commencing on or about June 12, 1978.

NOMINEES

The persons named in the enclosed form of proxy intend to vote for the election of the 12 nominees to the Board of Directors whose names are set forth below. The term of office for each such nominee shall be from the date of the Meeting until the next annual meeting of shareholders or until his successor is elected or appointed. **In the event that prior to the Meeting any vacancies occur in the slate of nominees submitted herewith it is intended that discretionary authority shall be granted to vote the proxy for the election of any other person or persons as directors.** The management is not presently aware that any of such nominees would be unwilling to serve as a director if elected.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

Name and Principal Occupation	Age	Year first became a Director (2)	Common shares beneficially owned as of May 16, 1978 (1) (excluding qualifying share)
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HON. JEAN LESAGE, P.C., C.C., Q.C., LL.D., of Quebec, Quebec Senior partner of the legal firm of Lesage, Paquet and Lesage	65	1975	3,000
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1-30s
1-40s
1-50s
8-60s
1-70s

*member of the Audit Committee of the Board of Directors.
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By order of the Board of Directors

PETER JOHN YOUNG,
Vice President Legal and Secretary.

Dated as of May 16, 1978.